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C O N F I D E N T I A L SECTION 01 OF 03 KUWAIT 001058

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TAGS: [EPET](#) [PGOV](#) [ECON](#) [KU](#) [SA](#)

SUBJECT: KUWAITIS TRY TO ADDRESS CHEVRON'S CONCERNS ABOUT
NEW REFINERY IN DIVIDED ZONE

REF: A. KUWAIT 943

[B](#). KUWAIT 606

[C](#). KUWAIT 383 AND PREVIOUS

Classified By: Ambassador Richard LeBaron for reasons 1.4 (b) and (d).

[1](#)1. (C/NF) Summary: On 25 June, Ahmad Al-Jemaz, Manager for the New Refinery Project at Kuwait National Petroleum Company (KNPC), met with Dudley McDaniel, Senior Vice President for Operations at Saudi Arabian Chevron (SAC), to discuss Kuwait's plans to build a mega-refinery adjacent to SAC's compound in the Kuwait-administered portion of the Partitioned Neutral Zone (PNZ) shared by Kuwait and Saudi Arabia. Al-Jemaz insisted that the new refinery would not impinge on SAC operations and outlined the measures that KNPC had undertaken in order to respond to SAC's concerns. McDaniel described the meeting as positive, but explained that since the Government of Saudi Arabia sees the refinery location as a sovereignty issue, it would be inappropriate for SAC to enter into any negotiations with KNPC at this time. McDaniel said that he and SAC President Ahmed Al-Omer would be meeting in Europe with a representative of the Saudi government within the next week. Al-Jemaz later told Econoff that he expects KNPC to issue tenders in August and award contracts by the end of the year. In a separate meeting on 30 June, Khaled Al-Fulaij, Petroleum Advisor to the Amir, told the Ambassador that Chevron management seemed to be in favor of an agreement and suggested that SAC President Al-Omer seemed to be the one blocking a compromise. He said the GOK was optimistic about proceeding with the refinery and had assigned a point of contact to liaise with the Saudi government. End Summary.

KNPC Reaches Out to Chevron to Allay Concerns

[1](#)2. (C/NF) On 25 June, Ahmad Al-Jemaz, Manager for the New Refinery Project at Kuwait National Petroleum Company (KNPC), met with Dudley McDaniel, Senior Vice President for Operations at Saudi Arabian Chevron (SAC), to discuss Kuwait's plans to build a 615,000 barrels-per-day refinery adjacent to SAC's compound in the Kuwait-administered portion of the Partitioned Neutral Zone (PNZ) shared by Kuwait and Saudi Arabia. Al-Jemaz told McDaniel he had requested the meeting to listen to Chevron's concerns and accommodate them as much as possible. In a 27 June phone conversation with Econoff, McDaniel characterized the encounter as "very positive." McDaniel said Al-Jemaz conveyed that KNPC was trying to mitigate any negative impact on Chevron's operations or living environment. He went so far as to offer to build Chevron a grass golf course. Al-Jemaz also tried to build a business case for Chevron, saying that KNPC might agree to purchase all of SAC's crude and process it in the

new refinery.

¶3. (C/NF) McDaniel reiterated Chevron's concerns that the proximity of the refinery would prevent SAC from being able to expand its facilities if it decides to launch its steamflood program, now a pilot project, on a much larger scale. (Note: The steamflood program could have the potential to significantly enhance the recovery of heavy crude from the joint Kuwait-Saudi operations in the PNZ to the benefit of both countries, but at this early stage, SAC has not decided whether a large scale steamflood operation would be a worthwhile investment. End note.) McDaniel said an expansion of the steamflood program would require the construction of an additional 100 housing units, new offices, a desalination plant, and additional infrastructure associated with steam generation and delivery. He noted that the timing of Kuwait's refinery project is unfortunate since it interferes with SAC's ongoing discussions with the Government of Saudi Arabia regarding the possible extension of the SAC concession, which is due to expire in February ¶2009. McDaniel stressed that SAC is also very concerned about the health, safety, and environmental impact of having such a large refinery built and operated in close proximity to SAC's administrative offices and family housing.

¶4. (C/NF) Al-Jemaz invited McDaniel to a follow-on meeting at KNPC headquarters, but McDaniel declined. He said because SAC works for the Saudi Arabian government and the Saudis see the refinery location as a sovereignty issue, it would be inappropriate for SAC to enter into any negotiations with KNPC at this time. McDaniel told Econoff that he and SAC President Ahmed Al-Omer, a Saudi national, would be meeting in Europe with a representative of the Saudi government within the next week.

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KNPC: No conflict; Need Refinery; Accommodating Chevron

¶5. (C/NF) In a separate meeting with Econoff on 2 July, Al-Jemaz explained that, in his analysis, the new refinery project and SAC's operations "do not conflict with each other." He added that the new refinery project presented excellent opportunities for American construction companies, energy companies, and construction material suppliers. (Note: U.S.-based Fluor is KNPC's lead consultant for the new refinery project and several U.S. companies have expressed interest in bidding for contracts, including Bechtel and Foster-Wheeler. KNPC has already contracted GE to provide the chemical reactors. End note.) Al-Jemaz said the refinery was needed to supply "clean" (low-sulfur) fuel for Kuwait's existing power plants which, according to Al-Jemaz currently emit airborne pollutants at four times the permitted level due to the burning of high-sulfur fuel. He noted that although Kuwait's future power plants would be gas-powered, the existing plants would need to continue to use only fuel oil, not gas, since Kuwait has failed in all its efforts to obtain gas imports from Iran, Iraq, and Qatar. When asked about Kuwait's plans to significantly increase its gas production following last year's announcement of a 35 trillion cubic foot (est.) non-associated gas discovery, Al-Jemaz said any surplus gas production, in excess of the gas required to support new power plants, would be used more profitably as feedstock for petrochemical plants. Regarding the controversial location, Al-Jemaz explained that more than USD 200,000 had been spent on feasibility studies of alternate sites, but when environmental impact, planned housing developments, construction and operating costs, and proximity to power stations were taken into account, the proposed site next to SAC at Ras Al-Zour was the only feasible location.

¶6. (C/NF) Al-Jemaz said that construction plans had already been altered to accommodate SAC. First, rather than building

a product loading pier, KNPC decided to build a new sea island for offshore loading. There will only be a small pier built for loading the pelletized sulfur produced as a byproduct of the refining process. Second, KNPC reconfigured the layout of the facilities so that an administrative buildings complex is now located as a buffer between the refinery's processing units and SAT's compound. Al-Jemaz pointed out on blueprints and on Google Earth that approximately 2.2 km and several KNPC administrative buildings will separate the refinery processing units and the SAC compound. Third, rather than take away from some of SAC's access to the sea, KNPC is taking away a strip of waterside property from the adjacent Al-Zour South Power Plant, which, Jimaz noted, was also built within SAC's reserved area without objection from Chevron or the Saudi government. Fourth, Al-Jemaz said that KNPC would offer SAC employees access to the bank, cafeteria, grocery store, and other infrastructure that would be part of the administrative buildings complex. Al-Jemaz also pointed out that the prevailing winds carry any effluent from the refinery offshore and away from the SAC compound. He added that the refinery would incorporate state-of-the-art safety and security features, and that a London-based environmental consulting firm had played a key role in the design process.

GOK Optimistic;
Tendering in August, Signing in December

17. (SBU) Al-Jemaz said he expects KNPC to issue tenders in August and award contracts by the end of the year. Applications for companies that wish to pre-qualify are due by 3 July.

18. (C/NF) In a separate meeting on 30 June, Khaled Al-Fulaij, Petroleum Advisor to the Amir, noted that KNPC and Chevron are engaging on the refinery, but SAC is emphasizing its "Saudi identity." He said Chevron corporate management seemed to be in favor of an agreement and suggested that SAC President Ahmed Al-Omer seemed to be the one blocking a compromise. He said that the Amir is aware of the situation and things seem to be on a positive trajectory. He added that the GOK had assigned a point of contact to talk to the Saudi government.

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LeBaron